

United States Senate

WASHINGTON, DC 20510

December 9, 2010

Ben Bernanke
Chairman
Federal Reserve Board
20th Street & Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Chairman:

As you prepare to issue a rule for debit interchange fees, as required by Section 1075 of the Wall Street Reform and Consumer Financial Protection Act of 2010 (the "Debit Interchange Fee Amendment" or "Amendment"), we write to express our concerns with this provision and to encourage you to ensure that consumer interests are protected in any rate standards that you set.

The Debit Interchange Fee Amendment requires the Board of Governors of the Federal Reserve System ("Board") to issue regulations relating to the price of debit interchange that banks charge merchants so that it is "reasonable and proportional" to the cost of the transaction. We understand the challenges you face in composing this rule, but we are concerned with the consequences of replacing a market-based system for debit card acceptance with a government-controlled system. We want to ensure that all costs to the issuers and economic value to the merchants are considered in the proposed rule.






We should all agree that having the government fix prices in almost any venue is a bad idea. There are any number of products that American merchants might prefer in the short term to have their suppliers prohibited from charging more than cost. But in the long term, price fixing creates more problems than it solves and is antithetical to our capitalist system and the notion of free enterprise. More importantly, price fixing harms consumers.

During the very limited debate on the Senate floor on this provision, the Debit Interchange Fee Amendment was presented to senators as a pro-consumer provision that would lower costs for customers who use debit cards. However, since passage of the Amendment, analyst reports for retailers likely to be affected by the provision make no mention of any benefits to consumers. Related to this, many predict that consumers will be faced with additional bank fees as the rule is implemented.

Additionally, there is a misconception that the small bank exemption included in the Amendment will level the playing field for institutions under \$10 billion. We are concerned that the Amendment will make small bank and credit union debit cards more expensive for merchants to accept than those issued by larger banks and would likely put them at a disadvantage compared to large issuers. Regulating interchange rates of financial institutions over \$10 billion will force smaller institutions to lower their prices as well in order to remain competitive.

We recognize that you are obligated to implement the Debit Interchange Fee Amendment as written, but we encourage you to take the time to consider all implications of this ratemaking rule, especially the impact it will have on consumers as well as institutions under \$10 billion, and exercise the discretion granted to you to minimize negative consequences. We, therefore, urge you to take sufficient time to gather and analyze all of the relevant facts and information before issuing a proposed rule.

Thank you for your consideration.


Senator Thomas R. Carper
Senator Richard C. Shelby
Senator Judd Gregg
Senator Robert F. Bennett
Senator David Vitter
Senator Jon Tester
Senator Christopher A. Coons
Senator Mike Crapo
Senator Pat Roberts
Senator Sam Brownback
Senator Evan Bayh
Senator Bob Corker
Senator Mark R. Warner